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FISCAL IMPACT STATEMENT

LS 6962

BILL NUMBER: HB 1278

NOTE PREPARED: Jan 12, 2008

BILL AMENDED:

SUBJECT: Reporting Tax Violations.

FIRST AUTHOR: Rep. Simms

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides that the Commissioner of the Department of State Revenue (DOR) may pay money for useful information concerning: (1) the underpayment of various taxes; or (2) the commission of various tax crimes. It provides that money paid to an informant comes from the amounts collected by the DOR, less interest, as a result of receiving the information. The bill also provides that the DOR shall establish and promote a program to receive information from the public concerning: (1) the underpayment of various taxes; and (2) the commission of various tax crimes.

Effective Date: July 1, 2008.

Explanation of State Expenditures: This bill would place additional requirements, and potentially costs, upon the Department of State Revenue to establish and promote the program as well as enforce and investigate any tax crime claims brought forward. These expenses should be covered within the existing level of resources dedicated to compliance efforts.

Background - The bill allows the Commissioner of the DOR to pay an individual for information the DOR finds useful in either detecting the underpayment of a listed tax or prosecuting a tax crime. The amount is left to the discretion of the Commissioner but may not exceed the amount collected, less interest, as a result of receiving the aforementioned information. The DOR must also establish a program to receive information from the public concerning the underpayment of listed taxes and the commission of tax crimes. The promotion of this program is to include a web page, a toll-free number, and publicly available information via DOR's publications.

Explanation of State Revenues: This bill may increase the amount of listed taxes collected. The exact fiscal impact is indeterminable and will depend on the amount of claims brought forward by the public as well as the reward amounts determined to be warranted by the DOR. Any fiscal impact that might occur is likely to begin in FY 2009.

Background - This bill was modeled after the IRC Section 7623. However, the bill leaves much of the program and enforcement details up to the discretion of the Indiana DOR. Section 406 of the Tax Relief and Health Care Act of 2006 amended IRC Section 7623 to increase rewards to between 15% and 30% of the collected proceeds when the Internal Revenue Service pursues an action against a taxpayer based on information brought to its attention by a whistle blower. Previously, the cap was set at 15%. Payments to whistle blowers in most cases are mandatory, and whistle blowers have the right to appeal unsatisfactory IRS award determinations to the Tax Court. In certain cases the statute places a 10% cap on awards. The new program is limited to claims against taxpayers whose gross annual income exceeds \$200,000 for an individual—there is no income floor for businesses—and whose potential indebtedness for taxes, penalties and interest is greater than \$2 M.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill could result in an increase in tax collections. As a result, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience a very minimal increase in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: United States House of Representatives, Committee on Ways and Means, <http://waysandmeans.house.gov/>. United States Department of Treasury, Internal Revenue Service, SOI Tax Stats, <http://www.irs.gov/taxstats/article/0,,id=117514,00.html>.

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